

Policy Goal 2 Create a Framework of Support and Responsibility for Small Farms



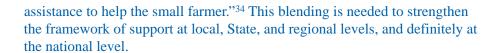
A farmer advocate at the Memphis hearing told the Commission that USDA should "foster and maintain the family farm system with personnel who understand the particular needs of farmers in a certain area."32 In serving small farm operators, USDA personnel should work in an environment that rewards initiative to deliver programs effectively, to solve problems of small farm operators quickly, and to find answers for them promptly. For instance, if a USDA employee determines through experience that a certain program or regulation is hindering the viability of small farm operators, the employee should be able to freely bring this to the attention of the agency administrator and start a course of action to modify the program. Sometimes efforts to make changes are suppressed or too easily dismissed by saying, "that is the way it has always been and we cannot do anything about it." The goal should be that small farm operators should be able to identify USDA as a "partner" in making farming decisions that will promote small farm viability and stewardship.

This goal can only be achieved if an organization is structured in a way that allows employees to be focused, creative, accountable, and accessible. USDA leadership should emphasize a cultural change throughout the organization, focusing on the mission clearly understood and practiced by all those in the organization, which is farmer-oriented and customer friendly, emphasizing service through accountable program operation and mindful of the public trust. The Commission believes that USDA's administrative structure has had an impact on how small farm operators have been and are being served. Programs that help small farm operators are dispersed throughout various agencies, including CSREES, NRCS, FSA, Forest Service, FNS, and AMS. There needs to be more cooperation among the various small farm programs in order to effectively meet all the needs of small farms in a coordinated manner. The Commission believes strong continuity and cooperative efforts in USDA programs serving small farm operators and policies affecting them are crucial to their viability. As one participant at the Memphis hearing said, "They (i.e., small farms) need to be a visible part of USDA's mission..."33

Once USDA develops a readily identifiable focus on small farms, the organizations and community-based groups that work with small farms can then begin to develop stronger partnerships with USDA. Partners can be critical to program delivery and can improve their effectiveness in serving small farm operators. A witness in Sacramento said, "I believe that a partnership between USDA and the leadership of some of the private sector organizations can with the blending of their two resources — develop a platform of technical

Testimony of Betty Puckett, farmer advocate, representing the National Family Farm Coalition, Louisiana Interchurch Conference and the National Catholic Rural Life Conference, public meeting in Memphis, TN. July 28, 1997.

³³ Testimony of Teresa Maurer, Appropriate Technology Transfer for Rural Areas, Fayetteville, AR, at public meeting, Memphis, TN. July 28, 1997.



This framework of support is influenced by program regulations, legislation, and appropriations (appropriations are addressed in Policy Goal 7). In this section, the Commission makes recommendations that will change program delivery, with specific programs cited, and suggests legislative changes to influence the delivery of service to small farms.

Small farms as priority

Small farms should be a major focus of USDA. Farms with sales of less than \$250,000 in gross sales comprise 94 percent, or 1.9 million, of all farms in the United States. These farms, on average, earn a negative return on equity. It is these farms that are most in need of public attention to create greater economic opportunities for their long-term viability. At present, USDA does not emphasize the needs of small farms in its strategic plan. References to small farms appear seldom in USDA's overall strategic plan submitted in fulfillment of the Government Performance and Results Act.

Land-grant institutions also need to make serving small farms a priority. The Commission heard testimony from farmers indicating a lack of attention from their land-grant universities to addressing the real day-to-day problems of how to improve farm profitability on small farms. Some farmers felt like their landgrant institutions are only interested in serving the needs of very large farms. However, the Commission also heard about land-grant programs taking explicit steps to assist small farms. For example, the University of California-Davis Small Farm Program has had success in educating and assisting a diverse group of small farm operators in a State that is increasing its number of small farm operators. A key element in its success is the small farm advisors designated to serve certain counties in the State. The one-on-one advice has worked well, especially in setting up vegetable trials and research and demonstration plots specifically for specialty crops.

Recommendation 2.1

The Secretary should establish an Administrator of Small Farm Programs who would report to the Secretary of Agriculture and have Senior Executive Service status. This Administrator would have the necessary high-level staff as well as support staff to carry out his or her duties, which will include both working with all USDA agencies to ensure that they are meeting the needs of small farmers, and providing formal input on major programmatic and policy decisions by USDA agencies. Further duties include examining the dispersed responsibilities at USDA and developing a plan for coordination to enhance program delivery.

³⁴ Testimony of Drew Brown, principal owner, Ag Sell, diversified consulting and management company, and chair, Minority Agricultural Resource Center, Sacramento, CA, at public meeting, Sacramento, CA. September 15, 1997.

Recommendation 2.2

Each USDA mission area and agency should designate a small farm coordinator to work directly with the Administrator of Small Farm Programs. The person should be a key leader and decision-maker for the represented agency.

Recommendation 2.3

Mission areas and agencies should address small farm concerns in their mission statements as well as their strategic plans. Performance goals for serving small farms must be instilled at all levels of an agency to ensure effective program delivery.

Recommendation 2.4

The Secretary should provide career enhancement incentives and opportunities that encourage high-quality and sustained performance for USDA employees who deliver programs, conduct research and outreach, or otherwise serve small farm operators.

Recommendation 2.5

USDA should develop a Department-wide Small Farm and Ranch Policy that encompasses the vision and guiding principles set forth by the Commission. Within that framework, each appropriate agency should develop complementary policy. This policy must be reflected in the development of technical materials used to provide service to small farm operators. Specifically, technical guides and handbooks, such as the NRCS Field Office Technical Guides and the Forest Service Handbook, must reflect circumstances faced on small farms, ranches, or woodlots. Extension publications regarding owning and operating small farms should be updated to reflect current conditions in agriculture.

1890 and 1994 land-grant universities and colleges

The key leaders in serving small farm operators are the 1890 land-grant universities and colleges in the southern region and 1994 land-grant Tribal Colleges serving American Indian and Alaska Native tribes. However, these institutions have been limited in providing services to all small farms in their respective regions due to limited funding. The 1890's have a historical commitment to serving small farms. The focus of these institutions has been to research and develop alternative enterprises and production systems suitable for small-scale agriculture. These institutions are an untapped resource when it comes to developing policies and programs concerning small farms.

Recommendation 2.6

The 1890 and 1994 institutions that serve minority farms should be appropriated significant funds to meet the needs of small farms, including research and outreach. The Secretary should strongly encourage a State match for Federal allocations at 1890 and 1994 institutions. The Secretary should continue to develop research partnerships among USDA, land-grant institutions and private, nonprofit groups to identify, analyze, and propose strategies related to marketing options, such as alternative marketing systems, Community Supported Agriculture, farmers markets, and value-added enterprises.

Recommendation 2.7

The Secretary should fully support passage of legislation that will make the "viability and competitiveness of small and medium-sized dairy, livestock, crop, and other commodity operations" a priority mission area under the "Initiative for Future Agriculture and Food Systems," as proposed by the Senate in the Agricultural Research, Extension, and Education Reform Act (S. 1150) in the 105th Congress. If passed, 1890 and 1994 institutions with experience in assisting small farm operators should be given priority consideration for conducting this research and extension, in partnership with community-based organizations.

Recommendation 2.8

Successful small farm education models at the 1890 and 1994 institutions, as well as the 1862 institutions, should be utilized to develop need-specific programs in each State.

Community-based organizations and other nonprofits

Community-based organizations and nonprofits that work directly to assist small farm operators in local communities have distinct advantages over government agencies or Extension in reaching small farmers. In some cases, they are better able to identify with the needs of small farm operators and earn their trust in a way that government agencies cannot. At the same time, USDA and Extension possess resources, knowledge, and different levels of credibility that nonprofit organizations lack. Collectively, these institutions have the potential to leverage their strengths in creating a framework to best serve the needs of small farm operators.

Recommendation 2.9

USDA agencies, with leadership from the USDA Office of Outreach, should seek to develop and implement innovative ways to partner with the private and nonprofit sectors. Through improved partnerships, USDA funds could be targeted to community-based organizations to help connect farmers and farmworkers with the technical and organizational information developed by and available from USDA, land-grant institutions, and other agencies. For example, partnerships with community-based organizations and nonprofits, as utilized by the SARE program, should be continued and expanded to other competitive grant programs. The strength of these partnerships should be a critical factor in scoring grant applications.

Recommendation 2.10

The Farm Service Agency can build on its successful partnerships with community-based organizations through the Outreach and Technical Assistance Program for Socially Disadvantaged and Minority Farmers (Sec. 2501 program), by making the DALR\$ (Debt and Loan Restructuring System) computer software program available to farmer advocate organizations. The organizations could utilize the software in assisting farmers in completing loan applications, in reviewing for accuracy and in expediting the loan application process.

Recommendation 2.11

Recommendation 2.12

We've made a lot of noise. We've done a lot of testifying as Native American people. But unless you can make that local service delivery happen, then you can have all the Commission hearings you want. I'm sorry, that's just the way it is. It's not happening, and we're becoming apathetic about it out in Indian country.

— Claryca Mandan, North Dakota

Recommendation 2.13

Recommendation 2.14

The Secretary should ensure that small farm operators and nonprofit organizations working with small farmers are significantly represented on all USDA advisory boards and committees, particularly the National Research, Education and Economics Advisory Board.

The Secretary should issue a policy requiring that Farm Service Agency State Executive Directors, Rural Development State Directors, and State Conservationists in NRCS establish a supplemental advisory team to provide programmatic and implementation advice on issues affecting small farm operators, farmworkers, and traditionally underserved USDA clients. These State advisory committees shall be comprised of three individuals from the target community, and shall be asked to meet as the need arises. These teams should work closely with the newly established State Outreach Councils.

American Indian farmers

Under the 1990 farm bill, American Indian and Alaska Native tribes were guaranteed USDA agency on-reservation assistance. In the past 7 years, USDA has not provided this assistance to the majority of American Indian farmers and ranchers. Traditionally, the American Indian farmers and ranchers have been deprived of on-reservation assistance by most USDA agencies. Lack of this assistance has contributed to the most economically depressed conditions in the country.

Many of the American Indian reservations fall within the boundaries of several county conservation districts and county committees. These county committees do not provide funding for conservation projects on the reservation, thus adding to the degradation of farm and economic status of the American Indian small farm and ranch operators.

The Commission strongly recommends that the Secretary immediately conduct a USDA agency review for compliance with provisions of the 1990 farm bill to serve Indian reservations.

Reservations whose geographical area exceeds 100,000 acres should be recognized as service areas and provided directly with NRCS, FSA, and Extension offices in the same manner afforded counties. Less than 90 USDA offices would be required to service over 80 percent of the 54 million acres of Indian reservations under this recommendation, with adequate additional funding to conduct program activity.



Policy Goal 3 Promote, Develop, and Enforce Fair, Competitive, and Open Markets for Small Farms

Testimony presented to the Commission asserts that the single most critical component to the survival of small farms is the price received for the product produced. A fair price and open cash market are essential to:

- secure adequate credit,
- repay debt,
- test new technologies,
- access broad educational sources,
- provide a decent standard of living for the farm family and its employees,
- ensure the production of a safe, edible commodity, and
- foster environmentally sound production.

However, because of increasing levels of market concentration in most commodity markets, a fair price for products at the farmgate has not been forthcoming for some time and must be addressed. At the same time, there has been a rise in the number of farmers marketing directly to consumers. Efforts should be made to enforce fair market competition of existing commodity markets, and at the same time, to develop new competitive markets which more closely link the producer to the consumer, so that the farmer has an opportunity to capture a greater share of the consumer food dollar.

Industrialized Agriculture – Need for Market Enforcement

The first speaker to address the Commission, Dr. Rick Welsh, described the emergence of two food streams shaping the structure of agriculture today.³⁵ Contract production affords food processing firms a means to control quality and minimize risk through control over supplies. There are two main types of contracts: production contracts and marketing contracts. Under production contracts, the contractor owns the livestock or crop and pays the producer a flat fee plus additional payments for performance-based incentives. Typically, the contractor supplies the livestock, seed, feed, supplies, veterinary services, transportation, management services, and sometimes financing, while the farmer supplies the labor, equipment, and facilities. Marketing contracts commit the farmer to sell his or her product to a specified processor or contractor but the farmer owns the product until sold and makes all the managerial and production decisions. Almost one-third of the total value of production on U.S. farms is generated under contractual arrangements, mostly under marketing contracts. ³⁶ Most dairy, citrus, and increasingly, grain is produced under marketing contracts. Seed crops, vegetables for processing, poultry, sugar beets, and potatoes are predominantly grown under production contracts, with hog production being the newest commodity to come under contract.³⁷

³⁵ Based on a report, *The Industrial Reorganization of U.S. Agriculture*, written by Welsh for the Henry A. Wallace Institute for Alternative Agriculture, April 1996.

³⁶ Farmers' Use of Marketing and Production Contracts/AER-747. Economic Research Service-USDA. p. 6.

³⁷ Welsh, Rick. *Reorganizing U.S. Agriculture – The Rise of Industrial Agriculture and Direct Marketing.* Henry A. Wallace Institute for Alternative Agriculture, Greenbelt, MD. August 1997. p. 23.





Contract production is generally done on a large scale. For example, the size of operations producing hogs under contract are larger than the average hog farm. In poultry, 97 percent of production is supplied by the largest operations with at least 100,000 birds. Welsh asserts that "the interactive effects of a concentrated processing sector and the gradual replacement of open markets with integrated ownership and contract production does not bode well for small farm agriculture."38

Production under contract can infringe upon the competitiveness of the open cash market, particularly in regional and local markets where contract usage is high. Recent cattle organization newsletters in Nebraska and Texas have urged cattle feeders to sell only to the cash market and avoid locking cattle into captive contracts. The Texas Cattle Feeders Association Market Director, Jim Gill, wrote, "As more and more cattle are 'tied-up' in some type of captive supply arrangements, price discovery on the cash market becomes more and more difficult. And when feeders commit cattle to a packer early in the week – and even begin shipping them – before a price is determined, it just relieves any pressure on the packer to purchase cattle on a bid basis."³⁹ In a letter to the Nebraska Cattlemen Feedlot Council, Geoffrey M. Stolie, its Vice President of Marketing, stated of growing contracts: "This practice has become so widespread that it periodically allows some packers to become no more than hitand-miss participants in the cash market....They do not have to aggressively compete for their remaining slaughter needs in the cash market and therefore end up paying less for cash market purchases, as well as the cattle that have already been slaughtered which will be marked at their 'top price'."40

Proponents of contract production addressed the Commission, asserting the benefits of a guaranteed price and market outlet, and that it has given farmers an opportunity to "remain on the farm." However, other contract growers, particularly poultry growers, spoke of the imbalance of risk in their contracts, fear of reprisal for attempts at organizing or challenging the contracts, and a general feeling of servitude because of the heavy debt incurred to construct poultry houses.

Competition in the hog, cattle, and lamb industries has been in decline even before the recent rise in livestock contracting. The proportion of the market controlled by the four largest steer and heifer slaughter firms increased from 36 percent in 1980, to 72 percent in 1990, and 82 percent in 1994. 41 Current concentration figures indicate that the four largest firms control 80 percent of the steer and heifer market, with new concentrated movement into the cow and bull markets. Producer testimony at Commission hearings, particularly in Memphis, Albuquerque, and Portland, pointed to increasing pressure to conform to contract markets because of reduced buyer competition in the cash

³⁸ Ibid.

Texas Cattle Feeders Association. NewsBriefs, December 5, 1997. Vol. XXX No. 42, p. 1.

⁴⁰ Geoffrey M. Stolie, Vice President Marketing, Nebraska Cattlemen. Letter to Nebraska Cattlemen Feedlot Council Members. November 24, 1997. p. 1.

41 Concentration in the Red Meat Packing Industry, February 1996, USDA-GIPSA report, p. iii.

market. Significant and prolonged downward price pressure was also a concern, with testimony in Sacramento pointing directly to the widening gap between the producer and consumer retail price.⁴² The producer's share of the retail beef dollar dropped from 64 percent in 1979 to 49 percent in 1997.⁴³

Equally significant is the dramatic decline in the domestic sheep industry. Sheep production in the 1940's reached over 52 million head. Today, however, production numbers show less than 8.4 million head, with imports taking up an increasingly larger share of the domestic market. 44 Market concentration is also pronounced in the sheep sector, with the share of the market controlled by the four largest sheep slaughtering firms rising from 51 percent in 1985 to 73 percent in 1996.⁴⁵ If market concentration offers greater market efficiencies and greater access to world markets, as many analysts have claimed, U.S. sheep producers would be hard-pressed to quantify the benefits.⁴⁶

Direct Marketing and Adding Value – Opportunities for Market Development

The second food stream described by Welsh is referred to as the "direct marketing stream." Direct marketing efforts have increased significantly in recent years, most notably in the form of farmers markets. The USDA National Farmers Market Directory, 1994 edition, listed 1,755 markets; the 1996 edition listed more than 2,400. According to the 1992 Census of Agriculture, direct sales of agricultural products totaled over \$400 million. Although this market stream delivers a relatively small portion of the overall food supply, it does provide greater opportunities for small farms to earn a greater share of the consumer food dollar and maintain a diverse farming structure.

In contrast to the industrialized stream, "the direct marketing stream is characterized by direct contact between producer and consumer, smaller-scale production operations, and a highly decentralized structure.... Direct marketing is based on the concept that farmers and ranchers control the products of their operations — from cultivation and weaning to final sale."47 Direct markets are often specialty markets, appropriate for small farmers who have the capacity to move smaller amounts of product that are often higher in value.

Small farmers can also pursue marketing strategies that promote their "smallness" as an attribute. An increasing number of products, particularly in natural food stores, such as Whole Foods Market, are marketed with labels identifying the farm family who raised the product, the location of the farm, and the stewardship efforts taken to grow or raise the product. An identifiable segment

We're told daily that supply and demand are the market forces that provide for market price, but when we examine the real world with the theory of perfect competition, we have to have perfect knowledge, unperishable products, and a large enough number of market participants, and [assurance] that no single participant could influence the market. Well, that's not the case in the food chain today.

- Bill Brey, Wisconsin

⁴² Testimony of Al Medvitz, farmer, Rio Vista, CA at public meeting in Sacramento, CA. September 15, 1997.

⁴³ Red Meat Yearbook. USDA Economic Research Service, 1997.

⁴⁴ Sheeps and Goats Report, NASS Report, Jan. 1996.

⁴⁵ GIPSA, Packers and Stockyards Statistical Report, 1995 Reporting Year, SR-97-1, September, 1997. p. 49.

Testimony of Al Medvitz, farmer, Rio Vista, CA at public meeting in Sacramento, CA. September 15, 1997.

⁴⁷ Welsh, Rick, Reorganizing U.S. Agriculture: The Rise of Industrial Agriculture and Direct Marketing, Henry A. Wallace Institute for Alternative Agriculture, Greenbelt, MD. August, 1997, p. iv.

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of the consumer market is attracted to products that represent a certain set of social and environmental values not as easily identifiable in the industrialized food stream. When farmers and consumers communicate face-to-face, through farmers markets, Community Supported Agriculture, or direct marketing to restaurants, a unique farmer-consumer relationship can develop, giving the small farmer a competitive advantage and giving consumers assurance that their food purchases are returning value to the farmer, the environment, and their community.

Small farmers can also benefit from greater economies of scale and market influence by joining with other farmers to form cooperatives for marketing and adding value to raw commodities. The Commission heard numerous stories of successful and fledgling cooperative efforts emerging throughout the country. There is a growing interest in cooperatives as a means to improve farm income, and with that, a growing need for greater knowledge of cooperatives and the business and marketing skills necessary to succeed. Securing capital for start-up of farmer-owned cooperatives can be a challenge. However, the Commission also heard testimony from dairy farmers who feel that some of their farmer-owned cooperatives are not acting in the best interests of the farmer-members.

Value-added cooperatives do provide a potential means for farmers to capture a greater share of the value of their product, keeping more dollars in their local and regional economies instead of exporting raw commodities (and dollars) away from rural communities. However, care must be taken to structure valueadded cooperatives in a way that truly benefits the farmers within the regional farm economy. For example, ValAdCo, a Minnesota cooperative formed by corn producers, established an 8,750-sow farrowing operation with 50 employees. In this case, the value-added cooperative set up direct competition with owner-operator hog farmers by shifting production into an industrial operation operated by wage laborers.⁴⁸ Cooperatives, or any value-added operation, must be structured in ways that allow farmers to capture the greatest share of the benefits and that support opportunities for greater market competition rather than more concentration.

⁴⁸ Center for Rural Affairs Newsletter. June 1996. p. 4.

The following recommendations of the Commission fall into two categories: market enforcement and market development. Government action to enforce competition in the marketplace is critical in the face of increasing concentration and anti-competitive behavior. At the same time, publicly supported efforts to develop and support new marketing strategies are needed to enable small farmers to capture a greater share of the value of their production.

Market Enforcement

While USDA has begun to address the concerns and recommendations put forth by the USDA Advisory Committee on Agricultural Concentration in June of 1996, the Commission feels strongly about the need to give additional emphasis to the issues of market competition enforcement. Market concentration is one of the strongest forces affecting the viability of small farms. Competitive, fair, and open markets are fundamental to the economic survival of small farms. USDA must play an aggressive role in government oversight and enforcement of market competition.

You have the Packers and Stockyards Act of 1921. You don't need any new laws. You just need to enforce the one that you've got.

- Coy Cowart, Oregon

Packers and Stockyards Act enforcement

While market concentration has increased dramatically in the last 15 years, regulatory pressure from USDA's Grain Inspection, Packers and Stockyards Administration (GIPSA) has failed to develop sufficient economic and legal expertise to keep pace with the emerging issues. GIPSA has been traditionally and competently geared toward the regulation of day-to-day livestock transactions, focusing on fraud, prompt payment, and fair buyer practices. 49 Market concentration occurred more rapidly than GIPSA's ability to adjust and address competitive concerns. Only within the last 2 years have there been significant actions to rectify the shortfall.

Key to GIPSA's ability to enforce the Packers and Stockyards Act is proof that there is a violation of the law. To do so, GIPSA must have skilled econometricians and lawyers trained specifically for this highly complex area of law enforcement. Because market access and fair competition are key to the access of our market structure, it is vital that agencies with statutory responsibilities, like GIPSA, be fully staffed, funded, and aggressively supported by the Administration and Congress.

Enforcement of the Packers and Stockyards Act is essential to a healthy market structure for livestock. The Commission agrees with many of the observations in the Inspector General's Evaluation Report in February of 1997. GIPSA needs more economic, statistical, and legal resources to analyze and formulate conclusions about the numerous complex, anti-competitive practices that have arisen in the livestock and meatpacking industries. USDA should

⁴⁹ Evaluation Report, USDA Office of Inspector General, No. 30801-001-Ch. February 1997.

immediately implement the reorganization of GIPSA's Packers and Stockyards Programs, by increasing staff and reforming operations to carry out its mandate to enforce the Packers and Stockyards Act.

Recommendation 3.1

The Commission urges USDA to implement the following options presented in the Inspector General's report:

- **a)** Integrate fully the economics staff into the investigations of anti-competitive practices.
- **b)** Assess staff qualifications and obtain additional staff with economic, statistical, and legal backgrounds to work on investigations of anticompetitive practices.
- c) Use USDA's other economic resources, such as the Economic Research Service, to assist with research activities.
- **d)** GIPSA should assemble its own staff with legal backgrounds to assist in the development of evidence for investigations.

The Commission opposes any legislative action to transfer USDA's responsibilities for investigations of anti-competitive practice to another Federal agency, such as the U.S. Department of Justice.⁵⁰ It is vital to keep areas of critical regulatory concern within the purview of the USDA where there is a

staff that is knowledgeable about the agriculture sector.

Recommendation 3.3

Recommendation 3.2

The Secretary of Agriculture should continue to request increased funding through the President's budget for GIPSA to complete its reorganization and to enable sufficient and able staffing resources necessary to conduct investigations into anti-competitive behavior in the livestock industry, including poultry. An additional \$1.6 million and 20 staff years for increased economic, statistical, and legal expertise to pursue investigations of packer competition and industry structure issues is reasonable and prudent. An additional \$750,000 of funding is needed for investigation and enforcement activities in the poultry sector. The Secretary should periodically monitor progress of the development of this new focus of GIPSA to ensure resources are adequate to carry out its mandated function. It should be recognized that this increase in the budget is only sufficient to establish an initial program. As staff become better trained and more experienced, budget increases will be required to fully exercise regulatory authority. A long-term program for GIPSA concerning market concentration must be developed to ensure proper and effective growth of the program.

Recommendation 3.4

The Grain Inspection, Packers and Stockyards Administration should establish and publicize a toll-free number so producers can report evidence of market abuses. The primary criticism often heard from anti-trust enforcement officials is the lack of evidence for prosecution. A toll-free number would provide

⁵⁰ Ibid. p. iii.



producers with an accessible and centralized source for registering complaints. The toll-free number could be a voicemail system whereby callers could confidentially record their complaints. They could also leave their names and addresses to request a complaint form to document the complaint with the type of evidence needed by GIPSA to determine the validity of the reported problem.

The Secretary should ask Congress to pass legislation clarifying the authority of GIPSA to prohibit discriminatory pricing on the basis of volume. The legislation should reaffirm that GIPSA is authorized to take action against undue preferential pricing by packers that damages smaller producers not receiving the preference, irrespective of whether there exists the intent or the effect of reducing competition among packers. The legislation should clarify that the existence of undue preference cannot be disproven by the mere presence of a business reason on the part of the packer for offering the preference and that preferences offered selectively without basis in product value or acquisition costs shall be considered undue preferences. Until such legislation is passed, GIPSA should argue this same position vigorously in the courts. The Commission commends the Secretary for the GIPSA investigation of hog procurement in Iowa and southern Minnesota. We urge the Secretary to release all findings to the public and to move aggressively against any discriminatory practices uncovered.

Contract production

The poultry industry is perhaps the most industrialized subsector of agriculture, with 89 percent of poultry farms using contracts and about 86 percent of the total value of poultry production grown under contract.⁵¹ Testimony presented to the Commission included the results of a 1995 survey of poultry contract growers conducted by Louisiana Tech researchers describing the average poultry grower. The average poultry grower is 48 years old, owns 103 acres of land, 3 poultry houses and raises about 240,000 birds under contract annually. The grower has been contract-growing birds for 15 years and owes over half of the value of the farm to the bank. The contract poultry grower's gross annual income is about \$66,000 and the grower's profit, before paying themselves for their labor, is about \$12,000.⁵² Raising poultry on contract may appear to be a way of reducing price and income risk. However, it provides a modest living at best and, under current contract practices, is far from riskfree. Poultry contracting requires the grower to provide the land, buildings, fuel, and labor while the contractor provides the livestock, feed, medicine, and veterinary services. Contract growers assume a disproportionate share of the risk by owning the fixed production assets – often debt-financed – and being liable for environmental costs and responsible for dead bird removal. Several lawsuits have been filed – and won – based on unfair contract practices. These include early contract termination before the building loans were paid off, company requirements for building improvements at the grower's expense,

Farmers' Use of Marketing and Production Contracts/AER-747. Economic Research Service, p. 6.

⁵² Testimony of Carol Morrison of Pocomoke, Maryland and member of the National Contract Poultry Growers Association, Presented at the Washington, DC, public meeting, September 10, 1997.

underweighing of birds and feed, manipulation of quality and quantity of feed and birds, and retaliation against growers for attempting to organize grower associations.⁵³ The Commission endorses legislative changes to strengthen the Agricultural Fair Practices Act (AFPA) and the Packers and Stockyards Act to enforce equitable and balanced practices for contract livestock growers.

Recommendation 3.7

Recommendation 3.6

Congress should amend the AFPA to provide USDA with administrative enforcement and civil penalty authority that will, in turn, enable growers to organize associations and bargain collectively without fear of discrimination or reprisal. This will shift authority from the Department of Justice to USDA, thereby providing more focused and timely enforcement of violations.

Recommendation 3.8

USDA should pursue legislative changes to amend the Packers and Stockyards Act to include poultry processors under the same administrative enforcement authority for violations to Section 202 used to enforce fair market competition for other meat packers. This change would shift jurisdiction for poultry processor violations from the Department of Justice to USDA, thereby enabling more uniform and efficient enforcement against unfair treatment of contract growers.

The Secretary should consider and evaluate the need for Federal legislation to provide uniform contract regulations for all growers who are, or wish to be, engaged in agricultural production contracts. The evaluation should include a review of existing State laws on agricultural production contracts, particularly in Minnesota, Wisconsin, and Kansas. It should also include a review of legislation proposed in Louisiana, Alabama, Oklahoma, Iowa, Florida, and North Dakota as models for what might be appropriate in a national law.

The elements that should be considered for inclusion in a Federal law covering agricultural production contracts should include, but not be limited to, the following:

- a) accreditation of producer associations
- **b**) promise of good faith by both parties
- c) mediation, arbitration, or alternative dispute resolution
- **d)** administration and enforcement of the law, including judicial review, civil remedies, and investigative powers by USDA
- e) conditions for and notice of termination
- f) notice and guidelines to renegotiate contract terms
- g) recapture of producer investments for contract termination
- h) a producer's lien

Hamilton, Neil D. A Farmers' Legal Guide to Production Contracts. Farm Journal. January 1995. p. 124-125.

- i) reimbursement for the costs of disposal of dead birds
- parent company liability for contractors
- **k**) duration of contract
- payment terms, including prompt payment and accurate settlement sheets
- m) formulas used to convert condemnations to live weight
- **n**) per unit charges for feed and other inputs
- o) factors to be used in ranking growers and determining performance payments
- p) prohibition against discriminatory practices, such as undue preference, coercion against joining an organization, issuing false reports and including employees of the company in the ranking system
- q) an express private right of action
- contractor responsibility for environmental damages
- grower's right to refuse livestock when delivered if livestock are in less than normal conditions
- t) capital construction requirements.

Marketing fresh produce

Producers of perishables – fruits and vegetables – particularly small-scale producers, typically market their products through brokers, packer-shippers, and commission merchants. Producers often have no knowledge as to the prices or returns they will receive for their produce until well after delivery is made to these entities. At some point an accounting is made to them, detailing expenses of the sale, as well as prices and net returns. Many charge that unethical and illegal practices in the sale of their produce are common. These producers often end up owing money to handlers after the sale of their produce. They further assert that government agencies charged with market enforcement duties are either unwilling or unable to effectively police the produce marketing system. Producers allege that handlers often sell produce to companies that, for various reasons, pay less than market price for the produce. This increases handlers' profitability while decreasing that of the growers.

Recommendation 3.9

The Commission recommends that USDA, working with State departments of agriculture, reinvigorate the role of market enforcement in protecting the integrity of agricultural markets. The involvement of law enforcement agencies may expedite the effectiveness of market enforcement activity. Hence, local District Attorneys need to be informed and educated as to the significance of ethical and legal marketing practices to the welfare of family farmers. A fullscale investigation should be made of the process in which brokers and handlers accept and pool consigned produce. Commission merchants and handlers should be held responsible for their actions. Improper handling of perishable fruits and vegetables should be the responsibility of these merchants and not of the farmer. These investigations should be regarded as serious offenses if there is proof of fraud or manipulation of pricing. The USDA should strengthen the Perishable Agricultural Commodities Act (PACA) program's ability to act swiftly, leaving no time for coverup at the merchant level. In cases of fraud, USDA should prosecute to the full extent of the law.

Captive supplies

Over the last few years, livestock meat packers have begun a practice called "captive supplies" as a means to secure livestock for their slaughtering operations. This practice is born out either through direct ownership of livestock by the packers themselves or through forward contracting with livestock producers. The Commission heard testimony from cattle producers concerned with the effect of captive supplies on reducing the volume of livestock for sale on the cash market. When packers own the livestock they slaughter, it is in the packer's interest to slaughter their own livestock when prices are relatively high on the cash market, effectively dampening the competition in the cash market. USDA published a petition for rule making for public comment in early 1997 restricting the use of forward contracts and packer ownership of livestock for slaughter. More than 1,700 comments were received by the April 97 deadline, and USDA is in the process of reviewing the comments.

Recommendation 3.10

The Commission endorses the petition to:

- a) Prohibit packers from procuring cattle for slaughter through the use of a forward contract, unless the contract contains a firm base price that can be equated to a fixed dollar amount on the day the contract is signed, and the forward contract is offered or bid in an open and public manner.
- b) Prohibit packers from owning and feeding cattle, unless the cattle are sold for slaughter in an open public market.

In addition, USDA should hasten its review of the petition comments and make a final decision no later than April 30, 1998.

Mandatory price reporting

Another practice employed by meat packers that damages competition in the marketplace is nonreporting of certain transactions. This occurs when packers pay above-market prices with an explicit condition that the price not be disclosed. Consequently, the market price upon which all other purchases were based, particularly formula cattle trades, were artificially low. All sellers not privy to this special deal suffer.

Recommendation 3.11

There has to be something done in Congress soon to get at least a 13.50 price for dairy farmers. There's not a one that's cash-flowing out there. We cannot survive on this.

- Sharie Lien, Minnesota

Price reporting for all packer livestock transactions should be mandatory. The information reported should include contract or formula pricing premiums and discounts. Accurate and verifiable data, particularly on all captive supplies, should be made public to enable fair, open, and competitive markets. Both parties to the transaction should be responsible for price reporting.

Dairy prices

The Commission heard testimony from many dairy farmers who were suffering from low prices and many who were going out of business as a result. Many spoke of personal and emotional stress and a farmer reported on farmers he knew who had committed suicide due to their inability to make ends meet for their families. The current crisis in the dairy industry can be attributed to the lowering of the Federal milk price support in recent farm bills, 3 years of historically low non-fed beef prices, unusually high, disaster-driven feed prices, and low and volatile farmgate prices.

USDA's efforts taken to date – cheese purchases for the nutrition assistance and school lunch program, initiation of the National Agricultural Statistics Service (NASS) national survey of Cheddar cheese prices, and increased use of Dairy Export Incentive Program sales — are welcome and have made some difference. However, continued vigilance, leadership, and exploration by any means available to the Secretary of Agriculture are needed to bring relief to the Nation's dairy producers.

In 1981, dairy farmers were receiving a national average of \$13.76/cwt. In August of 1997, dairy farmers were receiving a national average of \$12.70/ cwt. and retail prices were at \$2.76/gallon, about 90 cents higher than the retail price in 1981. While farm prices dropped by \$1, the price paid by consumers has not.

Some evidence suggests that dairy products in some retail stores are the most profitable products, and are often used to cover losses on other retail products. Using the measure of Direct Product Profit (DPP – profit on the basis of gross margin, after subtracting direct costs associated with selling the item), Cornell University researchers McLaughlan and Russo found that, in 1990, the dairy department produced the highest profit-to-space ratio in the supermarket. The dairy department generated \$11.19 per square foot of facings per week, more than twice as much as the next most profitable department, frozen foods, which requires considerably more processing, transportation, and packaging costs than milk and milk products. The same study found profitability on fluid milk was \$16.48 per square foot. As a result of the skewed store margins, the New York legislature passed a "price gouging law" which states that the retail price of milk cannot be more than double the Class 1 milk price, plus premiums paid and the cost of transportation.

Recommendation 3.12

The Economic Research Service (ERS) and the USDA Chief Economist should investigate the processing and retailing segments of the dairy industry to determine if excessive profits are being made at the expense of farmers and consumers, by researching the competitive structure of dairy product pricing within retail stores. The study should also examine the profitability of retail dairy pricing in relation to other retail product pricing within a store. Is the dairy case making more profit per square foot relative to other products? The study's findings should be made public.

Recommendation 3.13

The Secretary of Agriculture should ask the Department of Justice to investigate anti-competitive behavior of the dairy industry within the processing and retail segments.

Recommendation 3.14

In order to provide some measure of recovery for dairy producers, the Secretary should work with dairy leaders to press Congress for immediate changes in dairy policy to provide a transition for dairy producers commensurate with the crop commodity transition payments authorized by the 1996 FAIR Act, including the floor price resolution, the Dairy Cow Pay-Up program, or other options.

While agricultural markets are becoming increasingly concentrated, the rest of

the U.S. economic structure is also concentrating and infringing upon the basic

tenets of capitalistic markets. As many producers have only one or two buyers

for their commodities in their region, they are also facing growing problems in

accessing private credit sources, and with recent mergers in railroads, many farmers cannot move their grain in a timely or efficient manner. Not only is

choice and higher prices for the food they buy. University of Missouri profes-

sor, Dr. William Heffernan says, "The food sector of the economy is second

only to the pharmaceutical sector in terms of return on investment. But the economic benefits are not shared equally by all portions of the food sector."54

this a concern for producers, but for consumers as well, as they face less

Whatever we do or do not do in relationship to our structure of food production will illustrate the type of nation we are about to become — a nation that concentrates the wealth and resources in the hands of fewer and fewer people, or whether we are still a nation that believes that many people were intended to share in the great abundance and wealth God blessed this country with.

Economic concentration

- Gary Lamb, Iowa.

With concentration, not only are increasing price spreads a concern, but overall impacts to the social and community structures are increasingly negative. Heffernan points out, "Environmentalists are concerned about the ecological implications as they watch firms circumvent government regulations in one country by moving parts of their operation out of one country and into another. Consumers are concerned about issues of food quality, food safety and especially about the food security issue, or sustainability as it is sometimes called. There are animal welfare issues, rural development issues, labor issues and ethical issues to be raised."55

55 Ibid.

⁵⁴ Heffernan, William D. Agricultural Profits: Who Gets Them and Who Will in the Future?" Gulf Coast Cattleman. Volume 68, Number 2, April 1997. p. 11.



These changes imply a need for greater coordination and attention to the agricultural industry by more agencies than USDA. EPA is responsible for enforcement of environmental protection. The Department of Labor has jurisdiction over employment and worker safety laws, including farmworkers and wage-laborers involved in agricultural industries. The Department of Justice is responsible for upholding anti-trust laws and maintaining market competition in the food industry.

The Commission recommends that President Clinton establish a Presidential Commission on Market Concentration. This commission should include members of the relevant Cabinet-level agencies, with the Secretary of Agriculture taking leadership for the commission. The commission should include the Secretaries and Administrators of: Environmental Protection Agency; Departments of Labor, Justice, Interior, Health and Human Services, Housing and Urban Development, Commerce, Transportation; Small Business Administration; and the U.S. Trade Representative. The commission should examine the emerging concentration resulting in monopsonies and oligopsonies in all sectors of the economy and its effect on market competition, the environment, worker protection and safety, rural housing, quality of jobs and wages, transportation, banking, international trade, and socio-political structure. The purpose of the commission will be to assess the ability of the Federal Government to respond to the impacts of concentration. The commission should propose legislative and administrative changes accordingly and deliver a Plan of Action to the President within 1 year of initiation.

Market Development

At the same time that USDA pursues increased efforts to mitigate market concentration and ensure greater competition, USDA should also pursue the development of new markets to create more marketing options for small farmers and more opportunities to capture greater value for their production. USDA has a wealth of rural development business loan, grant, and technical assistance programs that could be channeled to facilitate "agricultural development."

"Agricultural development" refers to the recognition that farming, where it is a significant aspect of rural communities, is an asset for rural economic development. Rather than consider farming as an unprofitable "liability" that should be diffused through diversification strategies to attract other industries, rural development officials and practitioners should reconsider value-added processing and innovative marketing opportunities to breathe new life – and – profit into their farming sectors as an agricultural development strategy.



Much of the testimony received by the Commission spoke to the desire for greater technical and financial assistance for small farmers to get involved in value-added processing and marketing as a means to improve farm income. However, "value-added" processing and marketing can take many different forms, some offering greater potential to truly benefit farmers while other forms might be little more than a guise for industrializing agriculture using wage laborers and furthering the demise of local competitive market outlets.

Recommendation 3.16

USDA's Rural Business – Cooperative Service (RBS) financial and technical assistance programs should give priority to assisting the development of cooperatives that will primarily benefit small farm operators. Such cooperatives should be organized to ensure that a large share of their throughput originate from small farms. The financial and technical assistance programs provided by RBS should support value-added efforts where value-added strategies meet the following criteria:

- a) the profit from the value-added business operation flows to and within the community;
- b) wage-laborers are paid a living wage;
- c) the value-added initiative results in more local and regional competition in the cash market, not less:
- d) value-added initiatives should create incentives for resource stewardship and reward sustainable production systems. For example, processing of food-grade oats would provide a market incentive for including oats in a corn-soybean rotation. Another example is natural beef raised using intensive rotational grazing methods that maintains marginal land in pasture instead of row crops.
- e) Value-added initiatives should pursue specialty and differentiated products where small farms and small food processing firms will have a competitive advantage over larger firms. The research conducted according to Recommendation 1.1, Policy Goal 1 should be used to inform the financial and technical assistance priorities of RBS.

When defining "value-added," the following concepts should be included:

- f) value-added includes direct marketing, by individual farmers or a network of farmers allocating the marketing tasks among the network to achieve economies of scale and share responsibility;
- g) the addition of value must result through application of farmers' own time, management, skills, and production resources to produce products with less capital expenditures and purchased inputs or to produce products of higher intrinsic value (identity-preserved grains, organic grains, free-range chickens, natural beef, food-grade corn) for which buyers are willing to pay more.





Agriculture-based rural development

USDA Rural Business-Cooperative Service has taken increased steps to give attention to the opportunities for farm-based business development, primarily through value-added processing and marketing. For example, the Business and Industry Guaranteed Loan program regulations were changed recently to allow guaranteed loans for agriculture production if it is part of an integrated business also involved in the processing of agricultural production. The agricultural production portion of the loan cannot exceed 50 percent or \$1 million, whichever is less.⁵⁶ This change enables farmers and those not eligible for credit under FSA loan programs (non "family farms" as defined by FSA regulations) to obtain credit for agricultural value-added processing businesses. In addition, there is no "test for credit" like that used for FSA credit eligibility, making the B&I Loan Guarantee program available for non-farming corporations to vertically integrate into crop and livestock production.

The 1996 FAIR Act instituted another recent change allowing "family-sized farmers" to assume B&I guaranteed loans to finance start-up capital stock in value-added processing cooperatives. RBS is in the process of changing the B&I regulations to reflect this change, in particular to define what is meant by "value-added."

RBS also administers a B&I Direct Loan Program that had gone unfunded until FY 1996 appropriations included \$50 million. The program is not wellknown among rural development practitioners and others who could benefit from it. RBS should revise the B&I loan program regulations to give priority to projects that will primarily benefit small farms. B&I direct and guaranteed loans should be used to finance the development of new marketing infrastructure, including locally owned, value-added processing and marketing opportunities.

Recommendation 3.17

Eliminate B&I regulation 4279-113 (h) because it allows non-farming corporations to become direct competitors with farmers in agricultural production.

Recommendation 3.18

The use of B&I loan guarantees to finance start-up capital in stock should be targeted to give priority to small farmers, including those who are minority, women, and beginning farmers. The types of loans authorized should be consistent with the criteria for value-added listed in *Recommendation 3.16*.

Recommendation 3.19

The B&I Direct Loan Program should be targeted to the development of agricultural-related businesses for the purpose of creating new marketing avenues for small farmers. The "Community Priority" should include "agriculturally dependent"⁵⁷ communities and locations with the greatest concentrations of small farms. Outreach should be conducted to increase awareness of

⁵⁶ Rural Development Instruction 4279-B. 4279.113 (h). Previously, agricultural production was prohibited from B & I loans because they are available through FSA.

⁵⁷ "Agriculturally dependent" refers to counties with 20 percent or more of their earnings coming from production agriculture.

the program's availability. Outreach activities could include local seminars, sponsored by both economic development agencies such as local chambers of commerce, city, and county governments, and farm organizations, to describe the types of assistance available for agricultural development. RBS could also partner with the Council of State Development Agencies and participate in the National Association of Development Organization's annual training conferences.

Recommendation 3.20

The Forest Service should continue to support research and technology transfer efforts of value-added agroforestry products, such as pine straw for landscaping, boughs for holiday decorations, manufacture of biofuels, production of wood chips for home weed control, and cedar oil.

Agriculture-based development by rural electric cooperatives

Rural electric cooperatives have the ability to be a force for rural development in the customer communities by providing loans and grants using funds from their cushion-of-credit account. Some rural electric co-ops, such as in North Dakota, are exercising this authority by assisting with the feasibility studies and start-up of "new generation" cooperatives. Some States do very little to take advantage of this resource as a means of supporting local economic development efforts for their electric customer-borrowers. While loan funds were utilized in their entirety in FY 1997, grant funds were underutilized.

Recommendation 3.21

USDA Rural Development State Directors should conduct outreach to State Rural Electric Cooperative Associations to leverage the available loan and grant funds for agricultural development projects that will create local, valueadded agricultural businesses for the products of small farms. The National Rural Electric Cooperative Association should take steps to identify model programs throughout its member cooperatives and promote the best ideas for creating greater economic opportunities for small farm electric customers.

We have to provide an opportunity for vertically integrated companies to be owned by the folks at the bottom, and not just the folks at the top.

- Dave Carter, Colorado

Cooperative development

With the demise of many local and regional central markets due to the increase in vertical coordination and integration, there is a growing need and interest in cooperation among producers through alliances, networks, or formally organized cooperative business organizations. Under the Capper-Volstead Act of 1922, farmers are granted limited antitrust exemption for marketing raw and processed products through their cooperatively owned businesses. Cooperatives are a marketing tool through which producers can build market power on their behalf. To counter recent trends that concentrate production in the operations of the large producers, the members, promoters, and regulators of cooperatives will need to take deliberate steps to refocus the thrust of the cooperative movement toward helping small and disadvantaged farmers.

The recent growth in "new generation" cooperatives has typically focused on matching supplies to effective demand in niche markets through use of delivery rights and upfront investment in the joint value-added activity. A critical need of smaller cooperatives is to overcome weaknesses of fragmented marketing through coordination using marketing agencies-in-common or federations.

New start-up co-ops need professional assistance when they are least able to pay for it. Access to sound financial, legal, and marketing support is key. Seed money for feasibility analysis is needed for small producers to have the ability to assess the marketplace, and to identify an area that offers the greatest potential for the least risk. They also need the capacity to conduct the research and development to bring a new product to market. For a small start-up project, one stumble is fatal. And, the regulatory system and land-grant research structure must be attuned to the needs of these new ventures.

Recommendation 3.22

USDA's Cooperative Services programs should give priority for cooperative development to benefit small farm operators, including women,⁵⁸ minority, and beginning farmers. Public sources of technical assistance, research, education/ information about cooperatively owned businesses need to be strengthened and targeted to reflect the needs of small, women, minority, and beginning farmers. Research should be conducted to identify the best strategies and most successful cooperative models for small farmers. Efforts should be taken to expose and train USDA's Cooperative Services program staff to understand the unique strengths and liabilities of small farms in order to better serve their needs. Publications should be specifically tailored to provide information about cooperative opportunities for small farmers.

Recommendation 3.23

Teaching, research, and extension at 1862 and 1890 land-grant universities, as well as secondary schools with vocational agriculture programs, should consider including curriculum and courses on cooperative marketing where it does not currently exist. Educational programs through public television or using distance learning technology should be developed for farmer audiences.

Recommendation 3.24

USDA's Cooperative Services program staff should actively promote the availability of USDA funding sources, such as the Federal-State Marketing Improvement Program (FSMIP), RBEG, B&I, and grants through rural electric cooperatives, to finance co-op feasibility studies and provide assistance in the application process.

Recommendation 3.25

Land-grant universities with food technology and processing research and development programs should make greater efforts to avail themselves of small, minority, women, and beginning farmers interested in developing valueadded products appropriate to their size and scale.

⁵⁸ This refers to women who are the primary farm operator within a household; it does not refer to women in a household where the man is the primary farm operator.



Local and regional food economy

The global food economy, where capital and technology are mobile and can be transferred to those parts of the world with the lowest labor costs and least governmentally regulated environmental and health protections, is a playing field upon which small farms are left out of the game. "The food system now resembles an hourglass with many producers and millions of consumers but, with only a few firms controlling the processing, these firms are in a position to control the food industry.... The food sector of the U.S. economy is second only to the pharmaceutical sector in terms of return on investment (20 percent)...The food system is a profitable industry, but farm families get little of the profit in the highly concentrated food system..."59

Amidst the dominant talk of a "global economy" are voices articulating the hope of a "local or regional food economy" where small farmers play a central role. In a local or regional food economy, small farmers produce for community food and fiber needs and sell their products through alternative marketing channels. The strength of a local food economy is the relationships between farmers and community citizens. Through this relationship, small farmers provide fresh, in-season food appreciated and purchased by community citizens. The relationship creates an opportunity for mutual trust and support, contributing to the betterment of the community as a whole.

The alternative marketing channels are based on face-to-face relationships. These models currently in use, and increasing in use, are: farmers markets, Community Supported Agriculture, Church Supported Agriculture, on-farm marketing, subscription farming, roadside stands, home delivery routes, and farm-to-chef direct marketing. For some small farmers, these models offer an opportunity to supply local markets with fresh foods and maintain an economically viable small farm operation.

⁵⁹ Heffernan, William D. "Globalization of the Food System: An Overview of the Current Trends." <u>Justice in the Global</u> Food System: A Faith Perspective on Food Security. p. 25, 28.

A local food economy can also address the problems of food insecurity in our urban and rural communities among those with lower incomes. Defined as "access by all persons at all times to a nutritionally adequate and culturally acceptable diet through local non-emergency channels," the concept of "community food security" includes an important role for small farms as suppliers of fresh, nutritious produce for low-income people in local rural and urban areas. Community food security involves the development of linkages between small farmers and the nutrition needs of low-income people.

Local or regional food systems also offer the potential for place-based identification of food products from farms that provide intrinsic value beyond food production alone. For example, farmers in upstate New York have entered into a unique relationship with New York City to implement whole farm planning conservation methods to protect the watershed that supplies New York City's drinking water. At its public meeting in Albany, NY, the Commission heard of current efforts to market upstate farm products (veal, milk, vegetables) to upscale restaurants in New York City, identifying the source of the farm products on the menu and making the connection for customers to the city's water quality.

Recommendation 3.26

USDA should develop an interagency initiative to promote and foster local and regional food systems for the benefit of small farms, rural community citizens, and low-income people in rural and urban areas. This initiative will require a focused and coordinated approach among relevant agencies, through an interagency team including staff from the Food and Nutrition Service, Cooperative State Research, Education, and Extension Service, Agricultural Marketing Service, Farm Service Agency, and Natural Resources Conservation Service. The team would address the following components:

- a) USDA should encourage the use of the Federal-State Marketing Improvement Program (FSMIP) for developing direct marketing strategies and initiatives that primarily benefit small farms. State departments of agriculture, the primary eligible entity for FSMIP grants, should seek to partner with community-based organizations interested in pursuing local or regional food system strategies. FSMIP grants could be used to conduct feasibility studies to establish regional identity of high-quality products produced locally by small, family farmers or "eco-labels" to describe stewardship practices used in the production of the product and benefits to the environment. Efforts should be made to target funding to address the needs of beginning, minority, and women farmers.
- b) The interagency team should examine the barriers and opportunities for farmers to label their products as a means to differentiate their products so long as the labeling is not anti-competitive and does not harm the public interest. This study should include labeling of point of origin and growing practices, as well as other factors for product differentiation. The study

- should identify ways that USDA and other government agencies can be supportive of product labeling of these intrinsic values for the purpose of adding value to farm products.
- c) The Commission acknowledges the recent efforts by USDA to create farmers markets at USDA's headquarters in Washington, DC, and with neighboring Federal agencies. USDA should continue to expand the development of farmers markets at USDA office sites throughout the country. However, this should not be a top-down approach. It must include the input and involvement of area farmers in designing the market. Care should be taken to ensure that USDA-sponsored markets do not compete with existing markets. Vendor participation in these markets should be limited to farmers directly involved in growing their produce for sale, and should not include vendors who purchase produce from distributors.
- d) With the recent doubling of funds for the Women, Infants and Children/Farmers Market Nutrition Program (WIC/FMNP) for FY 1998, USDA should proceed to expand the program to more States and to areas where it has only been available in limited areas. USDA should continue to pursue increased funding to eventually serve all 50 States and U.S. Territories and possessions. USDA's WIC/FMNP is a model program that provides small farms with expanded markets for fresh produce (\$9 million to 8,250 farmers in 1996) while at the same time meeting the nutrition needs of low-income families. Nutrition education and cooking classes should be coordinated with participating farmers markets to provide WIC recipients with the knowledge needed to prepare fresh produce for consumption.
- e) As USDA's Food and Nutrition Service (FNS) proceeds to replace paper food stamps with the Electronic Benefits System, USDA should fund demonstration projects to find technologies and outreach strategies that enable the uninterrupted use of food stamps at farmers markets. Equipment and training should be available for those markets needing assistance. At the same time, FNS should pursue strategies for enabling food stamp use through Community Supported Agriculture programs.
- f) The Commission endorses the efforts of FNS, AMS, and NRCS to pursue marketing opportunities for small farms to supply local school lunch programs. These agencies should be commended for taking this step, and should pursue the pilot programs in North Carolina, Georgia, and Florida with a commitment to overcoming any barriers to developing this market. Cooperative Extension should also be involved in supporting this effort. The results of the pilots should be published and distributed along with a manual to encourage replication of these efforts throughout the country.
- g) Conduct a feasibility study to support a Federal Government procurement policy that gives priority to local purchasing of fresh farm and food products at Federal agency cafeterias, including national parks.

h) The Cooperative State Research, Education, and Extension Service should assess the new Community Food Projects and publicize the best projects as models for replicating community food security and connecting low-income people with small farmers.

Entrepreneurial development

Small farmers have the potential to meet specific market niches, but this potential has never been intentionally pursued by USDA. Small farmers have unique needs, constraints, and opportunities that have often been overlooked in the design and delivery of USDA programs. For small farmers to survive in the fast-changing agricultural industry that is dominated by large-scale production and concentration in the food processing sector, creative financing, specialty production, and niche marketing could serve to develop a competitive edge for small farmers.

Small farmers need to be considered as viable forces in shaping community-level economic development. While small farms have difficulty competing with large farms that supply most of the national and international food markets, small farms can be competitive at supplying local and regional food markets and, in some cases, niche export markets. Small farms have the ability to get face-to-face with local consumers, retailers, restaurants, and institutional (schools, government agencies) markets. To pursue these markets and improve farm profitability, small farmers will need to pursue value-added marketing and processing strategies. In addition to operating small farms, farmers need to be adept at running small businesses.

To take advantage of the potential for small farms to be competitive in local and regional markets will require a concentrated effort in entrepreneurial development, including business planning and development, financial management, product development, and market research, analysis, and execution. Small farmers have the ingenuity of entrepreneurialism; however, in most cases, they are only adept at one of the three key areas of business. Farmers are great at production, but some times lack skills and innovations in marketing. And in many cases, financial management skills are also lacking. Testimony from a South Dakota farmer best exemplifies this issue: "I go to meetings where they teach me to tank mix my application of herbicide, they teach me to do no-till. They teach me to be a better marketer. I have never been invited to a meeting where they can teach me to be a processor. Not a one." 60

Recommendation 3.27

USDA should launch a Small Farm Entrepreneurial Development Initiative to provide small farm operators and beginning farmers with targeted entrepreneurial training, integrated technical assistance, and priority program funding for the purpose of developing farmer owned and operated, value-added processing and marketing enterprises to serve local and regional community food systems.

⁶⁰ Paul Casper, farmer and member of South Dakota Soybean Processors, testimony at the Sioux Falls, South Dakota public meeting, August 22, 1997.



The initiative could be launched as a pilot program in 5-10 localities/regions of the country for a period of 2 years. The pilots could be distributed geographically in the most agriculturally dependent regions of the country or locations with the greatest concentrations of small farms. Particular emphasis should be given to the tobacco-dependent counties of Appalachia. The initiative could consist of 3 parts:

- **Entrepreneurial training:** The Entrepreneurial Education Foundation's "FASTRAC"61 business development curriculum should be adapted to apply to farm-based business development. The business development curriculum could also be adapted from other programs, such as EDGE supported by US West. The curriculum could be delivered via distance education instruction to downlink pilot sites. Successful farm-related entrepreneurs should serve as guest lecturers to provide real world insights from experienced business people. Each entrepreneur should leave the training with a completed business plan for actual application to an existing or start-up business activity.
- **Integrated technical assistance:** At each pilot site, "co-learning teams" should be established. The teams should consist of entrepreneurs along with USDA field staff from FSA, RD, NRCS-RC&D, Forest Service, Extension, and staff from EPA, Small Business Administration, the Department of Commerce' Economic Development Agency, Department of Interior, land-grant university and ARS scientists along with State, nonprofit, and private consultant rural development professionals. The concept of the teams is three-fold: 1) to provide each entrepreneur with ready access to and support from an integrated source of USDA and non-USDA service providers, 2) to provide experiential training in entrepreneurial development for service providers to build their capacity for assisting would-be entrepreneurs, and 3) to become more adept at leveraging the expertise and resources of each individual agency and organization to provide a comprehensive and integrated array of assistance needed by entrepreneurs.
- **Priority program funding and assistance:** Based on the model of the Empowerment Zone/Enterprise Community and the President's Timber Initiative, the pilot sites could be granted priority in receiving funding and assistance from existing USDA programs to assist the start-up of new enterprises. This could include non-formula research and extension funds, research projects by ARS, marketing assistance through FSMIP grants or economic research provided by ERS, Rural Development's business loan and grant programs, export assistance through the Foreign Agricultural Service, and more. The idea is to apply the full array of USDA resources, expertise, and knowledge, in partnership with other business development providers within the pilot sites, for the purpose of creating farm-based businesses where small farmers can increase their farm income through value-added processing and marketing enterprises.

The marketing is the tough thing. I mean, as farmers, we were not trained to be marketers. We were hauling the stuff to town and saying, "What'll you give me for it?"

- Ron Macher, Missouri

61 "FASTRAC" is a proven business development curriculum program, developed with support from the Kaufman Foundation, and offers comprehensive business training in financing, production, and marketing through a multiple-week training program.



Market access is critical for producers who want to direct market their products to consumers. Conflicting regulations can present barriers to small farmers in gaining access to these markets. For example, if a farmer wants to direct market beef to consumers, processing of the animal can be done either in a State or federally-inspected processing plant. The State-inspected plant is the most likely choice for farmers selling locally since they are generally smaller and more locally available. Federal plants may be hundreds of miles away from the farm and are more costly to the farmer. But, the standards are different for the farmer. When selling State-inspected meat, the farmer must sell by live weight, by 1/4's or 1/2's of a carcass, and cannot sell across State lines. In order to sell by the cut, to restaurants, groceries, or across State lines, Federal inspection is required. In many States, the State inspection requirements meet or exceed the Federal requirements, but they limit the access farmers have to potential customers.

Under the provision of the Wholesome Meat Act of 1967, States were given the choice of establishing their own programs or only taking responsibility for inspecting the facility of those who do custom processing of animals sold live to the consumer. Only 27 States established their own program, largely due to prohibitive costs. But States where such a program was established say they are better equipped to deal with the needs of smaller processing plants. The National Association of State Meat and Food Inspection Directors argues that a State program is a better bargain for the taxpayer since it doesn't require the higher wages and expensive bureaucracy that go with hiring Federal inspectors. Federal-based meat inspection officials are geared up to guide the operation of large national packers but often cannot easily adopt regulations to fit small local packers.

Some States, such as Minnesota, have argued that dropping of a USDA restriction on interstate shipping of State-inspected meat would provide an incentive for States to create their own inspection programs. Officials from States like Wisconsin, where there is an inspection program, have argued that their inspection program must be on par with Federal regulations anyway, so there is no reason to restrict interstate shipment of meat that comes from small approved plants.

The National Association of State Departments of Agriculture has proposed legislation that would drop the shipping restriction. Large packers have successfuly lobbied against past reform and maintained dominance in interstate trade. USDA is examining current policy and exploring options to revise the Federal-State meat inspection law.



The Commission endorses the recommendation of USDA's Advisory Committee on Agricultural Concentration. "Urge USDA to take aggressive action in a timely manner to end the inequities in meat inspection. With regard to Federal and State inspections, the committee recommends that appropriate steps be taken to promote the ability of State-inspected packing plants that meet Federal standards of inspection to compete by selling meat in interstate commerce. Provided, however, that such steps do not undermine the integrity of the U.S. position regarding acceptable inspection standards and safeguards for imported meat."

Statistical data collection

The National Agriculture Statistics Service data collection and ERS analyses fail to adequately measure and describe the current structure of production agriculture. While our food production system has changed from diverse commodity and livestock production per farm unit to largely monoculture production per farm unit, our statistical analysis stops short in its ability to account for the value of specialized or segmented production levels. Reliance on statistics with limited descriptive quality can lead to improper or ineffective policy decisions.

Specifically, when USDA describes that 1.9 million small farms produce only 41 percent of the "value of production" and 122,810 farms produce 59 percent of the "value of production," the measure does not take into account the fact that not all farms are producing the same commodities, much less at the same level of production. For example, 50 years ago a calf was born, weaned, grass fed and later grain fed usually on the same farm or farms of similar size and structure, and then sold direct to slaughter. Today, the calf may be born on one farm and be valued at \$400, then sold in the spring for \$500, again in the summer at \$700 and, later for slaughter at \$900. The same animal might begin in a 39-head cow-calf herd and be counted at a much lower "value" than when it is counted again as part of a 10,000-head feedlot.

The use of gross sales as a measure of contribution to farm production value fails to distinguish between the levels of production and the value of the production at each level. Gross sales as an indicator will be biased toward the value-added segments of agricultural production, such as the cattle feedlot. Without more precise indicators to measure the contribution of the primary level of production, the contributions of small farms will be misrepresented.



The National Agriculture Statistics Service should redesign its methods for measuring the value of production from U.S. farms to include another level of analysis that fully and adequately distinguishes the separate production levels of our mostly specialized production system. These levels would include:

- a) **Primary** This would measure the value of the first-level production; includes cow/calf, lamb, farrowing, grain production, hay, fruit, vegetable, etc.
- **b) Secondary** Dependent on the primary level for inputs; includes dairy, cattle feeding, hog feeding, etc.
- c) **Tertiary** Processing of raw commodities; includes livestock slaughter, canning, milling, etc.
- **d) Retail** The final processed product ready for consumption.

Delineating production according to these levels should provide a more accurate look at the type of farms and their contribution at each level of production. In particular, by isolating the primary level of production from the other levels, analysts should be able to determine the health and performance of this most essential level of production. Differentiation among the levels of production should allow USDA analysts to see the primary farm production without all the added secondary steps in order to make a sound, data-supported, less intuitive leap to expose the real status of the essential production system.